PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of)	
PUBLIC UTILITIES COMMISSION)	DOCKET NO. 03-0371
Instituting a Proceeding to Investigate Distributed Generation in Hawaii)	
)	

STATEMENT OF POSITION

<u>OF</u>

HAWAII RENEWABLE ENERGY ALLIANCE

<u>AND</u>

CERTIFICATE OF SERVICE

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF HAWAII

In the Matter of)	
PUBLIC UTILITIES COMMISSION	DOCKET NO. 03-0	371
Instituting a Proceeding to Investigate Distributed Generation in Hawaii))	
	,	

I. INTRODUCTION AND SUMMARY

The Hawaii Renewable Energy Alliance hereby submits this document, including our Statement of Position, dated May 7, 2004, to the Public Utilities Commission (PUC), in accordance with the PUC's Prehearing Order Number 20922 (Reference Docket No. 03-0371).

HREA believes Distributed Generation (DG), as defined herein, are the preferred alternatives to conventional fossil central generation (CG) power for meeting customer demand. Through rigorous implementation of DG, new fossil CG can be deferred and ultimately avoided. Implementation of DG requires a new market structure that promotes innovation and vibrant competition, hedges against future rate increases and provides other benefits to the ratepayer, the utility, industry and the state.

The implementation and impact of DG will be paced, in part, on: (1) how rapidly Hawaii's electricity market is opened to increased competition, (2) getting the new market structure right, (3) encouraging innovation in the market place, and (4) the availability and dedication of private sector resources to pursue new market opportunities.

The benefits that DG can provide include: (1) more efficient use of fossil fuels, while we still need them, for the generation of electricity, (2) an evolution of a more sustainable, environmentally-friendly, energy-secure future by implementing an optimal mix of DG, (3) mitigating future fossil fuel price uncertainties and placing us on a path to a more affordable energy future, and (4) reducing financial risk to our utilities and their ratepayers.

II. HREA'S STATEMENT OF POSITION

HREA believes that Distributed Generation (DG) is the preferred alternative to conventional fossil central generation (CG) power for meeting existing and future customer demand. However, before we discuss the specific issues raised in the PUC's Prehearing Order, we would like to establish and illustrate a common jargon as it applies to this Docket.

A. A Common Jargon

The following terms are defined and illustrated herein: back-up power, central generation, combined heat and power, distributed generation, energy conservation, energy efficiency, energy service provider, energy storage, hybrid renewable energy systems, renewable energy, and sustainable energy.

<u>Back-up power</u> is as-needed power provided by supply-side devices, such as reciprocating engines. Traditionally, these devices are used to charge batteries or to meet electrical load requirements when the primary devices are not operating.

<u>Central Generation (CG)</u> is large conventional, fossil-fueled facilities (one or more units of one or more types of prime movers/electrical generators), which provide electricity to customers via a transmission and distribution network.

<u>Combined Heat and Power</u> (also referred to as cooling, heating and power or cogeneration) is the sequential production of electricity and useful thermal energy such as steam, hot and chilled water, refrigeration and humidity control.

<u>Distributed generation (DG)</u> includes supply- and/or demand-side devices and measures that provide electricity, thermal and/or mechanical energy. These resources can be located on-site or nearby to users. They can be used to meet baseload power, peaking power, backup power, remote power, power quality, and cooling, heating and power needs. DG includes energy supply devices ("prime movers") for providing electricity, thermal, and /or mechanical energy to users from on-site or nearby locations, and energy storage and interconnection equipment needed to interconnect with customers and/or the utility grid. Examples of DG are

wind turbines, biomass cogeneration, hydroelectric plants, photovoltaics, fuel cells, microturbines, reciprocating engines, and pumped hydro storage. DG also includes demand-side devices and measures include energy conservation and energy-efficiency as defined herein.

Energy conservation is those measures that preclude or avoid the need to generate electricity. These include: (1) alternative ways to heat water, e.g., solar hot water heaters for homes or other buildings, and high temperature systems for commercial or industrial uses (e.g., laundries, food processing, etc.), (2) alternative ways to condition the air in our buildings, e.g., solar air conditioning and seawater water air conditioning, and (3) a myriad of consumer-oriented approaches to conserve energy, e.g., turning lights off when they are not needed, opening windows instead of using air conditioning, consolidating home laundry to reduce the number of machine wash loads per week, using the sun to dry clothes, etc.

Energy efficiency is those measures that reduce the amounts of electricity required to accomplish the same task by: (1) deployment of higher efficiency lighting, appliances, motors and other electrical equipment. Examples include use of compact fluorescent lights, higher efficiency refrigerators and air conditioners, and various load management options; (2) load-shifting, e.g., the utility offers lower electric rates during off peak times to encourage shifting of loads and thereby increase the overall system efficiency; and (3) upgrading the utility infrastructure with more efficient components and equipment to reduce line losses, e.g., higher capacity transmission lines and higher-efficiency transformers and switchgear.

<u>Energy Service Provider</u> is an entity that provides electric service to a retail or end-use customer.

<u>Energy storage</u> is defined as electrochemical and kinetic energy technologies which allow energy to be accumulated, stored and then released at a later time. These technologies include batteries, flywheels, compressed air, hot and cold water, pumped hydro and liquid, compressed or solid-state forms of hydrogen.

1 <u>Hybrid Renewable Energy Systems</u> are electrical-energy systems comprised of two or

2 more renewable energy components with or without energy storage and/or back-up power.

3 Some examples are wind/diesel, PV/battery, wind/PV/battery, and wind/PV/battery/biodiesel.

Note: in this case, biodiesel means a diesel-electric generator which uses biodiesel fuel or a

blend of biodiesel with conventional diesel fuel.

Renewable energy are those sources of energy that are naturally and constantly replenished, e. g., wind, solar, biomass, geothermal, hydro, ocean thermal and wave. One of the major benefits to Hawaii is that we have all of these renewable sources already in use or potentially available for development.

Sustainable energy is defined as those sources of energy that meet Hawaii's needs now without compromising future generations of Hawaii the ability to meet their needs, e.g., sustainable energy is an integrated combination of energy conservation, energy efficiency, renewable energy and energy storage. In the near-term, a path to sustainable energy must necessarily include more efficient use of fossil energy, and in the mid-term, use of fossil energy sources only as back-up power.

B. HREA's Position on the Issues

The following is HREA's position on the issues as stated on pages 2 and 3 in the
Prehearing Order:

Planning Issues:

Overall: HREA believes planning issues are important, as they set the stage for the design and implementation of the DG market place.

1. What forms of distributed generation (e.g., renewable energy facilities, hybrid renewable energy systems, generation, cogeneration) are feasible and viable for Hawaii?

HREA Position:

Our position depends, in part, on the implementation timeframe. For purposes of this discussion, the timeframe is broken down into three periods: near-term (now to 5 years from now), mid-term (5 to 15 years from now), and far-term (15 to 30 years from now). Therefore, we consider the following DGs feasible and viable for Hawaii, now or as indicated below:

- Renewable: individual wind turbines, windfarms, photovoltaics (PV), solar hot
 water (SHW), solar air conditioning (SAC), geothermal (binary-cycle), run-ofthe-stream hydro, sea water air conditioning (SWAC) in the near-term; solar
 thermal electric (STE) in the mid-term; and ocean and wave in the mid- to
 far-term;
- Hybrid renewable energy systems, which would typically be installed and operated at the customer's site;
- Storage: pumped hydro, and possibly some advanced battery concepts, such as the flow battery;
- Combined, Heat and Power (CHP): fossil (diesel/heat-recovery, microturbines/heat-recovery, fossil-fueled fuel cells/heat-recovery); and
- Combined, Heat and Power: renewable (Solar Air Conditioning/Electricity, and renewably-fueled fuel cells)

Note: we do not consider this to be an exhaustive list, but a work in progress. Specifically, new technologies will evolve and enter the market place, based on their cost/performance standards and the ease of entry to the market.

2. Who should own and operate distributed generation projects?

HREA Position:

We believe that there are a number of possible options for ownership and operation

of DG projects, including the regulated utilities and coops, un-regulated utility entities, other energy service providers, and/or end-users. All options could work, if each owner/operator is bound by the same rules and all barriers to the market are removed. However, the regulated utility would have an inherent advantage, if they were allowed to compete directly with other energy service providers, due to the utility's detailed knowledge of their customers and their financial strength and backing by the ratepayers.

Thus, we believe that the regulated utility, if they wish to participate in the DG market, should be required to set-up an un-regulated utility entity completely independent of the regulated utility, with appropriate firewalls erected and enforced. The un-regulated utility entity would then compete with our energy service providers.

The end-user might choose to own and operate the facility, or choose to own and then contract an energy service provider to operate the facility.

3. What is the role of the regulated electric utility companies and the Commission in the deployment of distributed generation in Hawaii?

HREA Position:

The regulated utility companies should plan for and facilitate implementation of DG through IRP. For example, the utilities could identify specific areas (geographic areas as well as end use market segments that influence peak demand) where DG is needed and solicit proposals, possibly including a rebate program, such as used in the current residential efficient water heating and other DSM programs.

Through creation and implementation of administrative rules, the PUC should ensure that: (a) DG energy service providers have access to the market, (b) interconnection and operational requirements are fair and equitable to all parties, and (c) the utility is not able to exert its monopoly power and unfairly influence the market place.

Impact Issues:

Overall: HREA believes it is important to study the impacts of DG, both positive and negative, in order to assess the overall costs and benefits of planning for and implementing DG.

4. What impacts, if any, will distributed generation have on Hawaii's electric transmission and distribution (T&D) systems and market?

HREA Position:

We believe the impacts will be primarily positive, especially if DG is planned and implemented under IRP. For example:

- DG will help increase the overall reliability of our island grids, i.e., the addition of generators on the system increases reliability. Specifically, the probability of multiple generators failing at the same time decreases, improving reliability of the system. Also, individual failures will be mitigated to the degree that the DG will be smaller in capacity and their impacts will be less that larger generators (e.g., the loss of a 2 MW DG will much less of an impact of the loss of a 200 MW CG);
- DG can be implemented to defer or avoid T & D upgrades and new T & D
 (such as with new construction of hotels and resorts);
- DG can be implemented to provide rate relief to specific customers without impacting other ratepayers negatively. Initially, DG will be off-setting new demand. Thus, DG will defer new fossil CG and help avoid rate increases, if it implemented in an innovative and competitive manner, and DG is not ratebased. However, if DG is rate-based, ratepayers will likely be subjected to rate increases as they have historically with the installation new CG; and

Over time, DG can be implemented to replace capacity from CG as it is 1 retired. This, of course, will need to be included in the utility's IRP process 2 and, perhaps, required directed implementation of DG. 3 5. What are the impacts of distributed generation on power quality and reliability? 4 **HREA Position:**

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Power Quality. We believe that power quality from DG will equal or exceed the utility's existing power quality. In general, power quality can be assured if DG meet applicable Institute of Electrical and Electronic Engineers (IEEE) standards and are certified by the Underwriter Laboratory (UL) or other certification entities. However, there will be times when a technical definition of power quality may be required, and perhaps, in situ testing to confirm the power quality of a specific DG.

Reliability. Reliability can be defined a number of ways. For example, reliability is typically the probability of a given event, such as continuous operation of a generator or a transmission system (i.e., no failures). As noted above, DG will help increase the overall reliability of our island grids, i.e., the addition of generators on the system increases reliability, as the probability of multiple generators failing at the same time decreases, and individual failures will be mitigated to the degree that DG will be smaller in capacity.

Reliability can also be defined more specifically in terms of percentage of the time the DG is available to generate and deliver electricity, as opposed to being down, due to routine maintenance or for repairs. This percentage, however, is usually referred to as the DG or generator availability.

A third definition relates to whether the DG is delivering power at a specific time. For example, a fossil generator is typically viewed as highly reliable, and considered to be firm power, i.e., you can turn it on when you want it and it will be there (assuming you have fuel). A wind turbine can only generate electricity, if there is

sufficient wind, and is therefore, considered intermittent or as-available by the utility.

Consequently, firm power is given more value by the utility.

Notes: system availabilities for wind turbines, PV, geothermal and hydro (all of which are considered intermittent), can be very high, even higher than fossil generators. However, the power delivery reliability of all generators is a function not only of their system availabilities, but also on the availability of their resource, such as the wind, the sun, geothermal fluids, and water for renewables, and the specific fossil fuel for conventional generators.

6. What utility costs can be avoided by distributed generation?

HREA Position:

We believe there are a number of utility costs that can be deferred and/or avoided by DG including:

- Cost of new generation: If aggressively implemented, DG (as defined herein)
 and defer and possibly avoid the need for new CG. If implemented
 competitively (hence no rate-basing of DG), the utility costs for new CG can
 be avoided;
- Avoided line losses: implementation of DG will reduce line losses. Hence,
 utility costs associated with line losses can be avoided;
- Avoided T&D upgrades: similarly, implementation of DG, properly planned in IRP, will reduce the need for T&D upgrades. Hence, utility costs associated with T&D upgrades can be avoided; and
- Cost for spinning reserve: Spinning reserve can help improve system reliability and also provide load-following capability. Not all of the islands have a spinning reserve policy. With the installation and DG, it may be possible to reduce spinning reserve requirements, and those costs could be avoided by the utility.

7. What are the externality costs and benefits of distributed generation?

HREA Position:

We believe a number of potential externalities can be identified, but, given the results of HECO's Externality Study, there is no consensus on how to monetize the externalities. Examples of externality benefits of DG are:

- Reduction in fossil fuel emissions from conventional generators, e.g., carbon dioxide (CO₂), nitrogen oxides (NO_X), sulfur oxides (SO_X) and particulates.
 The amounts of these emissions can be calculated for each conventional generator, and the total amount of emissions avoided per MWH based on the operational profile of each of the utility grids;
- Conservation of Water needed to cool conventional generators, e.g., steam turbine generators. Similarly to the air emissions, water usage can be calculated for each conventional generator and expressed as the number of gallons per MWH based on the operational profile of each of the utility grids;
- Energy Security benefits from DG accrue based on the reduction of fossil
 fuel needs. These benefits would include: reduced risks associated with
 energy supply, such as supply disruptions due to political or terrorist events,
 and risks associated with oil spills at sea or in the islands;
- Energy price risk benefits accrue when renewables, energy conservation and/or conventional energy efficiency measures are substituted for fossil fuels, i.e., if we don't use any fossil fuel, we wouldn't have to worry about oil price fluctuations. Consequently, the price risks are reduced as we reduce our dependence on oil. Additional benefits accrue, but to a lesser degree, when CHP, are employed. Nevertheless, while fuel prices tend to fluctuate independent of the Hawaii market, we can hedge our overall energy price risks by reducing the amount of fossil fuels we import.

8. What is the potential for distributed generation to reduce the use of fossil fuels? 1 **HREA Position:** 2 We believe there is significant potential for DG to reduce the use of fossil fuels 3 Hawaii. For example: 4 Based on a renewable study conducted by WSB-Hawaii for the Hawaii 5 Energy Policy Forum, there is potential (based on implementing wind, solar 6 and biomass projects) to double our renewable energy percentage in Hawaji 7 in 2003 (about 6%) to 11.7% in 2008, and more than double the percentage 8 in the subsequent 10 years to 28.6% in 2018. (For details, see the report at 9 http://hawaiienergypolicy.hawaii.edu/papers/bollmeier.pdf); and 10 11 Twenty to fifty percent of current building demand could be saved through energy conservation and energy-efficiency measures including CHP. 12 Implementation Issues: 13 14 Overall: HREA believes these issues are at the heart of the docket. Specifically, we 15 believe there will be consensus on the need to do DG. We believe the primary issues will revolve around who gets to play, what does the market look like and what 16 17 are the rules. 9. What must be considered to allow a distributed generating facility to interconnect 18 with the electric utility grid? 19 **HREA Position:** 20 We believe it is appropriate for the PUC to qualify or approve DG facilities for 21 interconnection with the electric utility grid. A number of factors may be considered 22 in making the determination, including the: 23 party that will own the facility; 24

party that will operate the facility;

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 current industry DG design, installation and operation practices, and whether 1 the facility will meet or exceed those practices. It will be desirable if these 2 practices have been approved by a standards-making entity; 3 utility interconnection and operational requirements and whether the facility 4 will meet or exceed those requirements. Also, it will desirable if these 5 requirements have been developed in a voluntary consensus manner with 6 participation from the utility, industry, the PUC, and other interested Parties; 7 applicable National Electric Code (NEC), Institute of Electrical and Electronic 8 Engineers (IEEE) standards, and whether the facility will meet those 9 standards; and 10 approval of applicable certification entities, such as the Underwriter 11 Laboratory (UL), for the facility and its subsystems and components. 12 10. What are the appropriate rate design and cost allocation issues that must be 13 considered with the deployment of distributed generation facilities? 14 **HREA Position:** 15 We believe that an appropriate rate design can help facilitate the implementation of 16 17 DG, and cost allocation issues should be addressed in a way that will also help facilitation of DG. For example: 18 Rate Design. A tiered-rate system (where increasing levels of usage are 19 billed at a higher rate), combined with a low customer charge could be 20 implemented to encourage DG. Such a system would encourage the 21 customer to investigate DG measures to reduce site load. Note: a tiered-22 system approach could also obviate the need for current, low-income user 23

subsidies.

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- Cost Allocation Issues. The utility should be allowed cost recovery for those
 costs associated with implementing DG under IRP. Values for the distributed
 benefits should be identified and used to facilitate DG implementation. For
 example, these benefits could be allocated to the off-set DG planning costs
 in IRP and also to finance rebates, as appropriate, to encourage DG.
- 11. What revisions should be made to the integrated resource planning process?

HREA Position:

We believe DG should be planned and implemented in IRP. For example:

- A working definition of DG has been defined herein to include DG as normally defined and, in addition, energy conservation and energy-efficiency measures.
 This working definition includes all DG located at or near a customer's site, i.e., on either side of the customer's meter, and all DG located closer to load centers than CG;
- DG should be given a very high priority in IRP and be planned to help meet our electricity demand and other goals and requirements, such as our existing Renewable Portfolio Standard (RPS) law and any future amendments to the law. In this regard, the output of IRP should be an optimal mix of DG measures. Ideally, performance and cost parameters will be developed, from which the most cost-effective measure would be selected first, and subsequent measures until the capacity and energy requirements are met for the specific planning horizon;
- DG, which has been added to HECO's 3rd Round IRP, should be added to all of the utility IRPs; and

A DG implementation plan should be prepared as part of IRP, and subsequently, 1 tracked once the IRP has been approved by the PUC. The plan should include: 2 (1) a specification of which DG measures will be included; 3 (2) a procurement plan that includes preliminary specifications for desired DG 4 additions, a timeline and selection criteria; and 5 (3) development and implementation of standard offer contracts for applicable 6 DG in order to expedite contract negotiations. 7 12. What forms of distributed generation (e.g., renewable energy facilities, hybrid 8 renewable energy systems, generation, and cogeneration) are feasible and viable 9 for Hawaii? 10 **HREA Position:** 11 As noted previously (Issue #1), our position depends, in part, on the implementation 12 13 timeframe. For purposes of this discussion, the timeframe is broken down into three periods: near-term (now to 5 years from now), mid-term (5 to 15 years from now), 14 and far-term (15 to 30 years from now). Therefore, we consider the following DGs 15 feasible and viable for Hawaii now or as indicated below: 16 • Renewable: individual wind turbines, windfarms, photovoltaics (PV), solar hot 17 water (SHW), solar air conditioning (SAC), geothermal (binary-cycle), run-of-18 the-stream hydro, sea water air conditioning (SWAC) in the near-term, solar 19 thermal electric (STE) in the mid-term, and ocean and wave in the mid-to 20 21 far-term; Hybrid renewable energy systems, which would typically be installed and 22 operated at the customer's site; 23 Storage: pumped hydro, and possibly some advanced battery concepts, such 24 as the flow battery; 25

1	 Combined, Heat and Power (CHP): fossil (diesel/heat-recovery,
2	microturbines/heat-recovery, fossil-fueled fuel cells/heat-recovery); and
3	• Combined, Heat and Power: renewable (Solar Air Conditioning/Electricity,
4	and renewably-fueled fuel cells).
5	Note: we do not consider this to be an exhaustive list, but a work in progress.
6	Specifically, new technologies will evolve and enter the market place, based on their
7	cost/performance standards and the ease of entry to the market.
8	13. What revisions should be made to state administrative rules and utility rules and
9	practices to facilitate the successful deployment of distributed generation?
10	HREA Position:
11	We believe a new that revisions to the following existing administrative rules may be
12	required:
13	HAR6-61-Rules of Practice and Procedure before the Public Utility Commission;
14	 HAR6-74-Standards for Small Power Producers and Cogeneration; and
15	Title VII, General Order No. 7, Standards for Electric Utility Service in the
16	State of Hawaii.
17	We also believe it may be appropriate to develop a specific administrative rule for
18	the Distributed Generation.
19	We reserve the right to make more specific recommendations at a later time.
20	14. The Parities and Participants may also address general issues regarding distributed
21	generation raised in the informal complaint file by Pacific Machinery, Inc., Johnson
22	Controls, Inc. and Noresco, Inc. against HECO, MECO and HELCO on July 2, 2003
23	(Informal complaint No. IC-03-098), but not specific claims made against any of the
24	Parties named in the complaint.

HREA Position:

We observe that many of the issues raised by Pacific Machinery, Johnson Controls and Noresco identical to, are similar to or expand the discussion of the previous 13 issues. Some of the issues raised by Pacific Machinery, Johnson Controls and Noresco are new. However, at this time, we have no detailed comments on the issues raised by the Pacific Machinery, Johnson Controls and Noresco, but reserve the right to provide comments at a later time.

C. Conclusion

 Our Statement of Position is presented with the august goal of working with the PUC and the other Parties in this docket to develop and implement a robust, innovative and competitive market for DG in Hawaii. We believe achieving this goal will help us take a major step down the path to the sustainable energy future that awaits us.

DATED: May 7, 2004, Honolulu, Hawaii

President HREA

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Statement of Position upon the following parties by causing a copy hereof to be hand-delivered or mailed, postage prepaid, and properly addressed the number of copies noted below to each such party:

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President HRFA

Dated: May 7, 2004